

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 5382

TREASURY DEPT WASXC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 TOKYO 1961

DEPT PASS FEDERAL RESERVE, CEA, LABOR

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - FEB 3-9

1. SUMMARY: KLEIN COMMENTS ON YEN APPRECIATION FOLLOWED BY
YEN SURGE AN BOJ REAFFIRMATION OF ATTACHMENT TO MARKET
DETERMINED EXCHANGE RATES. PM FUKUDA, IN DIET PROCEEDINGS,
CONTINUES TO RESIST CALLS FOR LARGER TAX CUTS THAN THOSE
PROPOSED BY CABINET AND CAST DOUBTS ON DIET'S RIGHT TO AMEND
BUDGET SUBSTANTIALLY. DEC PRIVATE MACHINERY ORDERS RECOVER STRONGLY.
REDUCTION IN LONG-TERM BOND AND BANK DEBENTURE COUPON INTEREST
RATES APPEARS TO BE IN OFFING. MONETARY AGGEGATES CONTINUE
RELATIVELY MODERATE GROWTH PATTERN IN FORUTH QUARTER. END
SUMMARY.

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2. CAPPING SEVERAL WEEKS OF GRADUAL STRENGTHENING OF
YEN AGAINST DOLLAR ON THE TOKYO FOREX MARKET, THE YEN SURGED
AND THE DOLLAR PLUNGED IN HEAVY AFTERNOON TRADING ON WED,
FEB 9, REACHING NEARLY TWO-YEAR HIGH/LOWS. MOST REPORTS
ATTRIBUTED THESE MOVEMENTS, WHICH SAW SPOT DOLLAR CLOSE AT YEN
285.80, TO WIRE REPORTS OF ALLEGED COMMENTS BY PENNSYLVANIA
UNIV PROFESSOR LAWRENCE KLEIN THAT JAPAN AND WEST GERMANY SHOUDL

ALLOW THEIR CURRENCIES TO APPRECIATE BY 10 PERCENT. BOJ GOV MORINAGA

IN REMARKS ON KLEIN SUGGESTION AT HIS WEEKLY PRESS CONFERENCE, COMMENTED THAT "WHILE BOJ INTENDS TO SMOOTH OUT SUDDEN DISRUPTIONS IN THE MARKET, ITS BASIC POLICY IS TO LET EXCHANGE RATES BE DETERMINED BY THE FORCES OF SUPPLY AND DEMAND." HE ALSO RECOGNIZED THAT PROFESSOR KLEIN'S COMMENTS DID NOT REPRESENT STATEMENT OF ADMINISTRATION VIEWS.

3. DURING QUESTIONING AT PLENARY DIET SESSION LATE LAST WEEK, PM FUKUDA CONTINUED TO DEFEND CABINET'S PROPOSED YEN 430 BIL TAX CUT, RESISTING CALLS BY OPPOSITION PARTIES FOR TAX REDUCTIONS AMOUNTING TO ONE TRILLION YEN AS FISCALLY NOT MANAGEABLE. AMONG OPPOSITION PARTIES, ONLY NLC'S KONO HAS THUS FAR BEEN SO BOLD AS TO SUGGEST LARGER TAX CUT SHOULD BE AT EXPENSE OF INCREASING BUDGET DEFICIT; ALL OTHERS HAVE ONE SCHEME OR ANOTHER FOR FINANCING CUT FROM OTHER TAX INCREASES OR EXPENDITURE CUTS. AFTER DISCUSSIONS SHIFTED FROM PLENARY SESSION TO BUDGET COMMITTEE FEB 7, FUKUDA, IN RESPONSE TO OPPOSITION DIET MEMBER'S QUESTION, CREATED STIR BY MAINTAINING THAT DIET'S RIGHT TO AMEND BUDGET SHOULD NOT "INFRINGE" ON CABINET RESPONSIBILITY TO DRAFT AND PRESENT IT. OPPOSITION PARTIES UNANIMOUSLY OBJECTED TO GOVT'S INTERPRETING BUDGET PROCESS IN A WAY WHICH WOULD EFFECTIVELY PREVENT DIET FROM AMENDING BUDGET TO PROVIDE SUBSTANTIALLY LARGER TAX CUT. AMENDMENT ISSUE UNSETTLED. AT PRESENT IT UNCERTAIN HOW BUDGET WILL GET THROUGH COMMITTEE IN WHICH OPPOSITION HAS MAJORITY. THERE IS SOME POSSIBILITY OF GOVT STRIKING MILD COMPROMISE WITH OPPOSITION.

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ALL PARTIES HAVE STRONG INTEREST IN EARLY IMPLEMENTATION OF STIMULATIVE SPENDING PROPOSALS.

4. A MILDLY ENCOURAGING NOTE WAS SOUNDED BY REPORTS ON DEC PRIVATE MACHINE ORDERS. SEASONALLY ADJUSTED, THE ROSE 19 PERCENT IN DEC ON THE STRENGTH OF ORDERS PLACED BY ELECTRIC POWER INDUSTRY. DEC RISE IN NEW PRIVATE MACHINE ORDERS, EXCLUDING SHIPS (JEI 337), AFTER DECLINES IN OCT AND NOV, PUSHED FOURTH QUARTER AVERAGE SLIGHTLY ABOVE YEAR'S AVERAGE OF YEN 256.7 BIL PER MONTH. THE 1976 AVERAGE FIGURE REPRESENTS A 13.9 PERCENT INCREASE FROM 1975 LEVEL.

BIL YEN PERCENTCHANGE FROM PRIOR MONTH

OCT 246.6 MIN 22.2

NOV 226.5 MIN 8.2

DEC 269.7 19.1

5. REDUCTION IN COUPON RATES FOR LONG-TERM BONDS APPEARS INCREASINGLY CERTAIN. ON FEB 8 BOJ GOV MORINAGA PUBLICLY STATED THAT IT IS TIME NOW FOR SUCH BOND RATE CHANGE. PREVAILING MARKET YIELDS ON CORPORATE BONDS (RATED AT

AA) DECLINED TO AVERAGE OF 8.648 PERCENT FEB 5, AS COMPARED WITH YIELD TO NEW SUBSCRIBERS OF 8.894 PERCENT. INTEREST RATE ON BANK DEBENTURES HAS ALSO DECLINED, AND CURRENT RATE OF 8.298 PERCENT IS NOW SLIGHTLY LOWER THAN ITS COUPON RATE OF 8.3PERCENT, WHICH IT USUALLY EXCEEDS. CORPORATE BOND YIELD TO SUBSCRIBERS IS EXPECTED BY MARKET TO BE LOWERED BY AROUND 0.15 TO 0.2 PERCENT IN MARCH. PRESS REPORTS INDICATE A REDUCTION IN COUPON RATE FOR BANK DEBENTURES IS ALSO UNDER CONSIDERATION BY BOJ AS A SECOND STEP TOWARD AN OVERALL REDUCTION IN JAPAN'S LONG-TERM INTEREST RATES. HOWEVER, LONG-TERM CREDIT BANKS CONCERNED ABOUT DISINTERMEDIATION ARE PROTESTING A CUT IN BANK DEBENTURE RATE WITHOUT A CORRESPONDING REDUCTION IN RATES ON GOJ BONDS OF COMPARABLE MATURITY.

6. MONEY SUPPLY GROWTH SLOWED IN FOURTH QUARTER, AFTER SOME PICKUP IN THE THIRD. BANK OF JAPAN DISCOUNTS, HOWEVER, UNCLASSIFIED

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EXPANDED SOMEWHAT MORE RAPIDLY DURING THE FOURTH QUARTER. FOR YEAR AS A WHOLE, MONEY SUPPLY INDICES REGISTERED ONLY MODERATE GROWTH BY JAPANESE STANDARDS, AFTER SHARP ADVANCES IN THE FIRST QUARTER OF 1976, WHILE LOANS AND DISCOUNTS HAVE BEEN AT FAIRLY MODERATE AND CONSTANT RATES THROUGHOUT YEAR. ON ANNUAL BASIS GROWTH IN MONETARY AGGREGATE HAS BEEN MOST REMARKABLY STEADY SINCE 1974, WITH ONLY M-2 SHOWING SOMEWHAT MORE RAPID GROWTH IN 1975-76.

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 AMCONSUL HONG KONG
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FOR DEC OF LAST YEAR ALONE, NARROWLY DEFINED MONEY SUPPLY,
 M1 (S.A.), DECLINED AND BROADLY DEFINED MONEY SUPPLY, M2 (S.A.)
 RECORDED SLOWER ADVANCE THAN IN NOV. ONE EXPLANATION OF SLOWER M-2
 GROWTH GIVEN BY BOJ OFFICIAL IS THAT WINTER BONUSES HAVE
 TENDED TO BE DEPOSITED WITH POSTAL OFFICES RATHER THAN WITH
 COMMERCIAL BANKS (POSTAL SAVINGS ARE EXCLUDED FROM M2 DATA).

MONEY AND CREDIT

(BIL YEN; PERCENT CHANGE FROM PRIOR PERIOD IN PAREN)

	M1	M2	BANK LOANS AND
	(JEI 123)	(JEI 126)	DISCOUNTS (JEI 133)

RECENT YEARS

(YEAR-END)

1973	40,312 (16.8)	98,189 (16.8)	71,853 (16.6)
1974	44,951 (11.5)	109,494 (11.5)	79,614 (10.8)
1975	49,947 (11.1)	125,330 (14.5)	88,767 (11.5)
1976	56,179 (12.5)	142,249 (13.5)	98,672 (10.9)

RECENT QUARTERS (S.A., MONTHLY AVERAGE):

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1976

JAN-MAR	48,779 (5.2)	125,273 (4.1)	89,454 (2.8)
APR-JUN	49,920 (2.3)	129,441 (3.3)	91,793 (2.6)
JUL-SEP	51,726 (3.6)	133,741 (3.3)	94,181 (2.6)
OCT-DEC	53,176 (2.8)	137,519 (2.8)	96,929 (2.9)

RECENT MONTHS (S.A.):

1976

JAN	47,873 (1.5)	123,470 (1.3)	88,578 (0.9)
FEB	49,482 (3.4)	126,054 (2.1)	89,528 (1.1)
MAR	48,983 (-1.0)	126,295 (0.2)	90,257 (0.8)
APR	49,244 (0.5)	127,731 (1.1)	91,055 (0.9)
MAY	49,895 (1.3)	129,489 (1.4)	91,691 (0.7)
JUNE	50,620 (1.5)	131,102 (1.2)	92,632 (1.0)
JULY	51,062 (0.9)	132,369 (1.0)	93,362 (0.8)
AUG	51,726 (1.3)	133,783 (1.1)	94,104 (0.8)
SEP	52,389 (1.3)	135,072 (1.0)	95,078 (1.0)
OCT	53,124 (1.4)	136,648 (1.2)	96,298 (1.3)
NOV	53,254 (0.2)	137,565 (0.7)	96,842 (0.6)
DEC	53,149 (-0.2)	138,344 (0.6)	97,648 (0.8)

NOTE: BOJ HAS REVISED SEASONAL ADJUSTMENT FACTORS FOR ALL MONTHS OF 1976, AS IS CUSTOMARY AT END OF THE YEAR. DATA ABOVE ARE ALL ON REVISED BASIS.

7. DESPITE EASING CONDITIONS IN THE BOND MARKETS, SEVERAL PROSPECTIVE FOREIGN BOND ISSUES IN JAPAN HAVE BEEN CALLED OFF PRIMARILY DUE TO INTEREST DIFFERENTIALS. ASIAN DEVELOPMENT BANK, INTER-AMERICAN DEVELOPMENT BANK, AND AUSTRIAN GOVT HAD EACH ORIGINALLY PLANNED TO PLACE 10 BIL YEN TO 12 BIL YEN OF BONDS EACH IN JAPAN DURING FIRST SEVERAL MONTHS OF THIS YEAR BUT NOTIFIED MOF THEY WERE NOT PREPARED TO PROCEED AT PRESENT. OBSERVERS HERE CITE REASONS AS (1) HIGH INTEREST RATES IN JAPAN (8.8 PERCENT COUPON RATE FOR CORPORATE BONDS) RELATIVE TO EUROBOND YIELDS (RECENTLY DOWN TO 7.5 TO 7.75 PERCENT, AND (2) GROWING EXPECTATION OF LONG-TERM RATE CUTS IN UNCLASSIFIED

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JAPAN. MOF HAS BEEN ENCOURAGING FOREIGN BOND ISSUES IN JAPAN, WHICH AMOUNTED TO 65 BIL YEN IN 1976 (\$225 MIL AT EXCHANGE RATE OF 290 YEN PER DOLLAR). DURING LAST THREE MONTHS OF 1976, FOREIGN BOND MONTHLY PLACEMENTS WERE PERMITTED. MOF HOPED TO MAINTAIN THE PATTERN OF MONTHLY PLACEMENTS THIS YEAR AND REPORTEDLY IS NOT TOO HAPPY ABOUT THE RECENT DECISION NOT TO FLOAT ISSUES HERE.

8. REALIABLE NIHON KEIZAI REPORTS MOF IS CONSIDERING RELAXATION OF RESTRICTIONS ON INVESTMENT IN FOREIGN SECURITIES BY INDIVIDUAL JAPANESE RESIDENTS SUCH INVESTMENT IS CURRENTLY RESTRICTED TO SECURITIES LISTED ON STOCK EXCHANGES OF SELECTED OECD MEMBER NATIONS. ACCORDING TO NIKKEI, MOF INTENDS TO EXPAND THIS TO PERMIT PURCHASE OF LISTED SECURITIES IN NON-OECD NATIONS, AND POSSIBLY TO UNLISTED FOREIGN SECURITIES. THIS IS SEEN AS PRIMARILY A RESPONSE TO REQUESTS FROM ASIAN COUNTRIES, PARTICULARLY HONG KONG AND SINGAPORE, TO LIBERALIZE JAPANESE INVESTMENT IN ASIAN COUNTRIES' STOCKS. LIBERAZATION IS EXPECTED TO BE EFFECTIVE IN APRIL.

9. NIPPON TELEPHONE AND TELEGRAPH PUBLIC CORP (NTT) PLANS TO PLACE \$150 MIL OF GOVT-GUARANTEED BONDS IN THE U.S., THE LARGEST BOND ISSUE ABROAD TO DATE BY A JAPANESE ENTERPRISE. SECURITIES AND EXCHANGE COMMISSION REPORTEDLY RECEIVED AN APPLICATION FOR REGISTRATION OF THIS ISSUE IN EARLY FEB. CONDITIONS EXPECTED TO BE ANNOUNCED AROUND END OF FEB. NIKKO INTL IS AMONG UNDERWRITERS, LED BY DILLON READ.

10. INDUSTRIAL BANK OF JAPAN RECENTLY ANNOUNCED THAT IT PLANS TO PLACE \$50 MIL OF EUROBONDS AROUND MID-FEB THROUGH ITS OVERSEAS SUBSIDIARY IN CURACAO. THE FIVE-YEAR BONDS ARE TO CARRY A FLOATING RATE WITH 6 PERCENT MINIMUM. ALL THE DOLLARS RAISED ARE TO BE USED FOR LENDING ACTIVITIES ABROAD.

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Message Attributes

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Executive Order: N/A
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